

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 PM-07 NSC-07 SP-03 SS-20 RSC-01

SWF-02 AID-20 CEA-02 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 CIEP-02 STR-08 LAB-06 SIL-01 SAM-01

OMB-01 DRC-01 EURE-00 L-03 H-03 DODE-00 PA-04 USIA-15

PRS-01 NIC-01 /169 W

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P 281530Z JUN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 5651

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

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AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USMISSION NATO

DEPARTMENT OF TREASURY WASHDC PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 8996

E.O. 11652: N/A

TAGS: EFIN, PINT, IT

SUBJECT: PM RUMOR PRESENTS ECONOMIC PROGRAM TO ITALIAN PARLI-
AMENT

REF: A. ROME 8604 DATED JUNE 21, 1974

B. ROME 8551 DATED JUNE 20, 1974

C. ROME 8499 DATED JUNE 19, 1974

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1. SUMMARY. IN AN ADDRESS BEFORE CHAMBER OF DEPUTIES ON JUNE 27, PM RUMOR REVIEWED EVENTS OF RECENT POLITICAL CRISIS EXPLAINING REASONS FOR HIS RESIGNATION AND SUBSEQUENT AGREEMENT REACHED WITHIN THE CENTER-LEFT COALITION WHICH RESOLVED POLITICAL CRISIS. HE THEN DESCRIBED PRESENT ECONOMIC SITUATION OF COUNTRY AND OUTLINED PROPOSED ECONOMIC STABILIZATION PROGRAM. WHILE HE DID NOT GIVE PRECISE DETAILS OF EITHER FISCAL OR CREDIT COMPONENTS OF PROGRAM, OVERALL OBJECTIVE IS TO RESOLVE CURRENT CRISIS BY REDUCING INTERNAL DEMAND AND CORRECTING SEVERE BALANCE OF PAYMENTS DEFICIT. TODAY'S DEBATE IN CHAMBER CONCLUDED WITH VOTE OF CONFIDENCE, WHICH GOVERNMENT WON ALONG STRAIGHT CENTER-LEFT PARTY LINES (SEPTEL). SENATE WILL NOT DEBATE PROGRAM UNTIL MONDAY, AS SATURDAY IS ROMAN HOLIDAY. END SUMMARY.

2. IN FORTH-MINUTE ADDRESS BEFORE CHAMBER OF DEPUTIES, PRIME MINISTER MARIANO RUMOR REVIEWED REASONS FOR THIS RESIGNATION 18 DAYS AGO AND ECONOMIC AND POLITICAL ACCORD WHICH WAS SUBSEQUENTLY REACHED WITHIN FOUR-PARTY COALITION. HE DESCRIBED PRESENT ECONOMIC CRISIS AS GRAVE SITUATION FOR WHICH ALL SECTORS OF SOCIETY MUST BEAR BLAME AND SAID THAT OVERCOMING THIS THREATENING REALITY REQUIRED COMBINED AND DETERMINED EFFORTS OF ALL ITALIANS. ON PRESENTING TO DEPUTIES ECONOMIC STABILIZATION PROGRAM WHICH GOVERNMENT INTENDED TO ADOPT TO PULL COUNTRY OUT OF ITS ECONOMIC DIFFICULTIES, HE STRESSED THAT CHOICES WHICH MUST BE MADE WERE UNPOPULAR AND DIFFICULT, THAT GOVERNMENT WAS ASKING SACRIFICES FROM EVERYONE BUT THAT THESE SACRIFICES WOULD BE SHARED EQUALLY.

3. FISCAL PROGRAM. WHILE REITERATING OBJECTIVE OF TAX PROGRAM WAS TO REDUCE INTERNAL DEMAND BY 3,000 BILLION LIRE IN A TWELVE-MONTH PERIOD, RUMOR DID NOT DISCUSS DETAILS OF PACKAGE WHICH APPARENTLY ARE STILL BEING WORKED OUT. HOWEVER, HE DID PRESENT GENERAL OUTLINE AS FOLLOWS:

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A) ADDITIONAL TAX ON USE OF TV SETS WOULD NOT BE LEVIED;

B) EFFORTS WOULD BE MADE TO REDUCE EVASION OF PAYMENT OF VALUE-ADDED TAX,, AND IVA RATES ON LUXURY ITEMS WITH HIGH IMPORT CONTENT WOULD BE INCREASED CONSIDERABLY;

C) TAX AUTHORITIES WOULD INCREASE SPOT AUDITING
OF TAX RETURNS;

D) EXTENSION UNTIL END OF 1975 OF TIME-PERIOD IN WHICH
GOVERNMENT CAN ASSESS TAXES AGAINST CONTESTED RETURNS
OR CHALLENGE VALIDITY OF TAX RETURNS;

E) ONE-YEAR INCREASE IN CIRCULATION TAX ON CARS;

F) EXTENSION OF ELIGIBILITY FOR TAX EXEMPTION TO
WIDE NUMBER OF LOW-INCOME WORKERS AND ABOLITION OF
TAX EXEMPTION FOR HIGH-INCOME GROUPS. (NO FURTHER
MENTION OF INCOME TAX SURCHARGE ON THSE EARNING MORE
THAN 4 MILLION LIRE PER YEAR WAS MADE);

G) REAL-ESTATE TAX INCREASES ARE STILL BEING STUDIED;

H) INCREASE IN PUBLIC UTILITY RATES WILL BE MADE.
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P 281530Z JUN 74

FM AMEMBASSY ROME

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INFO AMEMBASSY BERN

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4. REVIEW OF ECONOMIC SITUATION. RUMOR REVIEWED ECONOMIC CONDITIONS EARLY IN YEAR WHEN CENTER-LEFT COALITION CAME TO POWER AND MEASURES WHICH WERE TAKEN. AT THAT TIME, ECONOMIC PROJECTIONS FORECAST 4.2 PERCENT INCREASE IN NATIONAL INCOME, WITH CORRESPONDING LEVEL OF INVESTMENT OF 21,700 BILLION LIRE AND CURRENT ACCOUNT DEFICIT IN BALANCE OF PAYMENTS OF 4,900 BILLION LIRE, OF WHICH 3,000 WAS ATTRIBUTED TO PETROLEUM. IT
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WAS UNDER THESE CONDITIONS THAT GLOBAL CREDIT CEILING OF 22,400 BILLION LIRE WAS ASSUMED AS COMMITMENT WITH IMF AS NECESSARY TO BALANCE NON-PETROLEUM DEFICIT IN BALANCE OF PAYMENTS. ALSO, IT WAS DETERMINED THAT 500 BILLION LIRE IN ADDITIONAL TAXES WOULD HAVE TO BE RAISED IN ORDER TO CONTAIN INTERNAL DEMAND AND ENSURE AN ADEQUATE VOLUME OF INVESTMENT WITHIN GLOBAL CREDIT CEILING. GIVEN THIS ECONOMIC SITUATION, CORRECTIVE MEASURES WERE TAKEN WHICH CONSISTED OF INCREASING CERTAIN TAX PAYMENTS DUE IN 1975 AND LIMITING EXPORTS OF FOREIGN EXCHANGE BY TOURISTS. SUBSEQUENTLY SITUATION DETERIORATED RADICALLY, AND IT WAS ESTIMATED THAT CURRENT BALANCE OF PAYMENTS DEFICIT FOR 1974 WOULD BE ON THE ORDER OF 7,000 BILLION LIRE, 4,000 OF WHICH WOULD BE RESULT OF UNDERLYING NON-PETROLEUM DEFICIT. IT BECAME EVIDENT THAT LIMITS WHICH HAD BEEN FIXED ON CREDIT EXPANSION AND TAX MEASURES THAT HAD BEEN TAKEN NO LONGER CORRESPONDED WITH REALITY. GOVERNMENT REALIZED THAT EVEN AFTER REDUCING CREDIT BY 2,000 BILLION LIRE THROUGH PRIOR IMPORT DEPOSITS, IT WOULD BE NECESSARY TO INCREASE TAXES NOT BY 500 BILLION LIRE, BUT BY 3,000 BILLION LIRE, IN ORDER TO ACHIEVE EQUILIBRIUM IN NON-PETROLEUM BALANCE OF PAYMENTS BY END OF 1975.

5. CREDIT POLICY AND FINANCING DOMESTIC INVESTMENT. TURNING TO DISCUSSION OF CREDIT POLICY, RUMOR NOTED THAT ONLY WITH SUCH A REDUCTION IN INTERNAL DEMAND WOULD IT BE POSSIBLE TO ACHIEVE ANY FLEXIBILITY IN CREDIT AREA,

SO AS TO PERMIT ANTICIPATED GLOBAL DOMESTIC CREDIT
EXPANSION OF ABOUT 22,000 BILLION LIRE. REDUCTION
IN CREDIT NEEDS OF TREASURY AS CONSEQUENCE OF
TAX INCREASES WOULD PERMIT DIVERSION OF CREDIT FOR FIN-
ANCING EXPORTS, FOR DEVELOPMENT OF SOUTH AND FOR SMALL
AND MEDIUM INDUSTRY.

6. SUBSEQUENT TO RUMOR'S SPEECH, VARIOUS PARTY LEADERS
COMMENTED ON PROGRAM. REACTION WAS GENERALLY FAVORABLE,
ALTHOUGH GIOVANNI MALAGODI, FORMER TREASURY MINISTER
AND PRESIDENT OF LIBERAL PARTY, DESCRIBED PROGRAM AS
INSUFFICIENT, WHILE UGO LA MALFA, ANOTHER FORMER
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TREASURY MINISTER AND PRESENT SECRETARY OF REPUBLICAN
PARTY, EXPRESSED POSITIVE VIEW.

7. COMMENT. LACK OF DETAIL AS TO COMPOSITION OF TAX
PROGRAM IS ATTRIBUTED TO DESIRE TO MAINTAIN FLEXIBILITY IN
DEVELOPING PRECISE TAX DECREE MEASURES. HOWEVER, SOME
DISAGREEMENT MAY STILL EXIST AS TO RELATIVE WEIGHT
TO BE ASSIGNED TO INDIVIDUAL COMPONENTS OF PACKAGE.
BUT IN ANY CASE, MOST IMPORTANT FACT IS THAT GOI
REMAINS COMMITTED TO 3,000 BILLION LIRE TAX INCREASE. VOLPE

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